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Soviets Sit on Oil's Powder Keg

Can't Cash In on What They Have, Can't Get Cash to Tap It

By ERNEST CONINE

The sharp fall in world oil prices is a mixed blessing to the United States. Motorists will pay less for gasoline and industry will benefit from lower energy prices. But cheaper petroleum poses the threat of economic disaster for U.S. oil producers and the economies of those states whose financial fortunes are tied to the petroleum business. U.S. banks with large outstanding loans to oil-exporting countries will now find it harder than ever to collect.

There is nothing ambiguous, however, about the effect of falling world oil prices on the Soviet Union. It's bad. Period.

Soviet pain and suffering from the oil shock will be a positive development if it sharpens Moscow's need for a period of calm in international relations. But it may also create sharp differences between the United States and its European allies over how far the West should go in extending credits to help the Soviets compensate for falling export revenues.

The Soviet Union, in the words of a Central Intelligence Agency report, "is better endowed with energy resources than any other country in the world."

In addition to vast coal reserves and hydroelectric resources, the Soviets have huge gas reserves and the largest oil reserves outside the Persian Gulf area. They lead the world in oil and gas output, and are a major exporter of both fuels.

As a matter of fact, oil exports account for two-thirds of the hard currency earned by the Soviet Union in its trade with the West—hard currency that is needed to pay for grain imports and purchases of Western equipment and technology.

The Soviet Union was a major beneficiary of the upward explosion of world oil prices from under $3 a barrel in 1970 to $34 a barrel in 1983. Now it is a major victim of the downward plunge.

As recently as November, oil was still selling on world markets for an average of $29 a barrel. Now spot oil prices are under $16 a barrel and threatening to go lower. For Moscow the prospective result is a loss of several billion dollars per year in hard currency earnings.

No doubt the Soviets would like to increase the volume of oil exports in order to compensate for the lower price per barrel. Unfortunately for the Kremlin, however, Soviet oil production is trending down instead of up.

After peaking in 1983, Soviet petroleum output fell in 1984 and again in 1985. To quote the petroleum consultants Conant & Associates, the shortfall is due not to any physical shortage of oil but to "technical deficiencies, unreliable equipment and bureaucratic mismanagement." The decline will not be easily reversed.

Some 20% of the oil wells in the West Siberian province of Tyumen, which is supposed to provide well over half of Soviet oil output, are said to be shut down for lack of essential repairs.

Gorbachev has made no secret of oil's crucial role in Soviet economic development. As he said on one occasion, "Oil and gas industries are the basic sectors of our economy, and the Western Siberian complex is the heart of those sectors . . . determining to a large extent the success of the entire national economy."

Russia cut its export of crude oil and petroleum products to non-communist countries by almost one-quarter last year. To the extent Soviet oil sales contracts are written in dollars, the purchasing power of oil exports has been further shrunk by the declining value of the dollar.

Apparently the looming cash crisis already is being felt. A group of French businessmen encountered a spreading sense of gloom among Soviet trade officials on a recent trip to Moscow. As one of the visitors told Business Week, "We just couldn't get any business or any commitments on anything."

There are several things that the Kremlin can do, but most are unattractive.

Since the natural gas industry is still in good shape, the Soviets will try to increase gas exports. This will help, but will not by itself solve the problem.

They can cut oil supplies to the communist countries of Eastern Europe in order to maximize petroleum exports to Western customers that pay in hard currencies. But the trade-off would be a higher risk of political instability in a region of direct importance to Soviet national security.

Gorbachev & Co. can dip into the Soviet Union's $24-billion gold hoard, but the Kremlin historically has been very cautious about digging very deeply into that pocket. There is still another alternative, of course, and that is to cut back on imports and settle for less ambitious plans for the Soviet economy. Indeed, the Soviets have already put a $1.2-billion project by Renault of France on hold and may do the same with two big billion-dollar chemical plants.

But Gorbachev is staking his prestige on the drive to make the Soviet Union, already a military superpower, into an economic superpower as well. And, considering how far behind the Soviets already are in computer-related industrial and information technologies, it is hard to believe that he will willingly embrace a go-it-alone strategy of economic modernization.

It seems far more likely that Soviets will combine limited gold sales with efforts to expand their access to Western credit in order to buy the modern equipment and technology they need to rejuvenate the bilious Soviet economy. But the Reagan Administration's natural instinct will be to discourage U.S. banks from going overboard to accommodate the Russians.

Experience suggests that President Reagan would have only limited success in urging similar reticence upon the West Europeans. But, everything considered, Gorbachev just may find it prudent to appeal to Reagan's better nature by a prolonged show of reasonableness in Moscow's relations with Washington.

The world won't get any final answers when the Communist Party of the Soviet Union holds its 27th Congress next week. But the Kremlin's new in-group is bound to drop some clues.

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